The Fiscal Monitor

A Publication of the Department of Finance

Highlights

October 2008: budgetary deficit of $0.6 billion

There was a budgetary deficit of $0.6 billion in October 2008, compared to a deficit of $0.5 billion in October 2007. Budgetary revenues were up $0.7 billion, or 3.7 per cent, from October 2007, as higher personal income tax and other revenues were partially offset by lower corporate income tax and goods and services tax (GST) revenues. Program expenses increased by $0.9 billion, or 5.9 per cent, compared to October 2007, reflecting higher transfer payments, offset slightly by a decrease in other program expenses. Public debt charges decreased by $0.2 billion compared to October 2007.

April to October 2008: budgetary surplus of $0.2 billion

For the first seven months of the 2008–09 fiscal year, there was a budgetary surplus of $0.2 billion, down $5.9 billion from the $6.1-billion surplus reported in the same period of 2007–08. Budgetary revenues increased by $1.2 billion, or 0.9 per cent, primarily reflecting growth in personal income tax and other revenues, offset by declines in corporate income tax and GST revenues. Program expenses were up $7.8 billion, or 7.2 per cent, due to higher transfer payments and operating expenses of departments and agencies.

Program spending growth has been relatively strong so far this year but began to moderate in September. This moderation in spending growth is expected to continue in the second half of the year, reflecting the spending pattern in 2007–08, when program spending in the early months of the year was low, then rose in the second half of the year.

Public debt charges were down $0.6 billion on a year-over-year basis, reflecting a lower average effective interest rate on the stock of interest-bearing debt.

October 2008

There was a budgetary deficit of $0.6 billion in October 2008, compared to a deficit of $0.5 billion in October 2007.

Budgetary revenues increased by $0.7 billion, or 3.7 per cent, to $18.8 billion.

- Personal income tax revenues rose $0.9 billion, or 10.5 per cent.
- Corporate income tax revenues were down $0.6 billion, or 23.7 per cent. Corporate income tax receipts can be volatile, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.

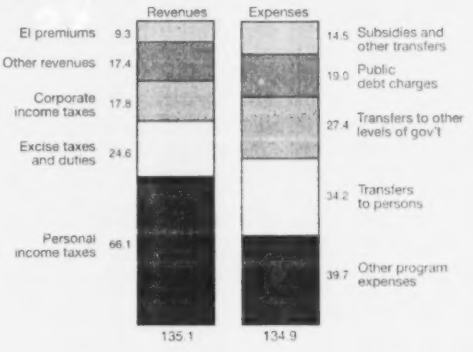
- Other income tax revenues—withholdings from non-residents—increased by $0.1 billion, or 23.4 per cent.
- Excise taxes and duties were down $0.6 billion, or 16.2 per cent, due to lower GST revenues. GST revenues declined by $0.5 billion, or 17.0 per cent, due in part to the 1-percentage-point reduction in the GST rate, effective January 1, 2008. Customs import duties were up $5 million, sales and excise taxes fell $0.2 billion, and revenues from the Air Travellers Security Charge were virtually unchanged.
- Employment Insurance (EI) premium revenues were unchanged, as gains in employment and wages and salaries offset the decline in the premium rate from $1.80 to $1.73 per $100 of insurable earnings, effective January 1, 2008.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sale of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were up $0.9 billion, or 67.3 per cent. Other revenues were boosted in October 2008 by the inclusion of criminal fines and settlement amounts, consistent with the civil settlement agreement with tobacco companies announced on July 31, 2008. Other revenues (and corresponding operating expenses) in October 2007 have been reduced by $1.0 billion to reflect certain internal government transactions in a manner consistent with that used in October 2008 and the 2008 *Public Accounts of Canada*. This adjustment has no net impact on the budgetary balance. In addition, other revenues for October 2007 have been restated in regard to the sale and leaseback of seven federal office properties such that the gain recorded reflects the accounting for this transaction in the Public Accounts.

Program expenses in October 2008 were $16.8 billion, up $0.9 billion, or 5.9 per cent, from October 2007, reflecting higher transfer payments.

In October 2008, transfer payments were up $1.1 billion, or 11.1 per cent, from October 2007.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by $0.1 billion, or 2.0 per cent. Elderly benefits increased by $0.1 billion while EI benefits decreased by $0.1 billion. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit, remained stable.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were up $0.5 billion, or 13.4 per cent.

Revenues and expenses
(April to October 2008)



- Subsidies and other transfers increased by $0.6 billion, or 29.7 per cent, reflecting increases in transfers related to investments in infrastructure and higher transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses fell by $0.2 billion, or 3.7 per cent, over the prior year.

Public debt charges declined by $0.2 billion compared to October 2007.

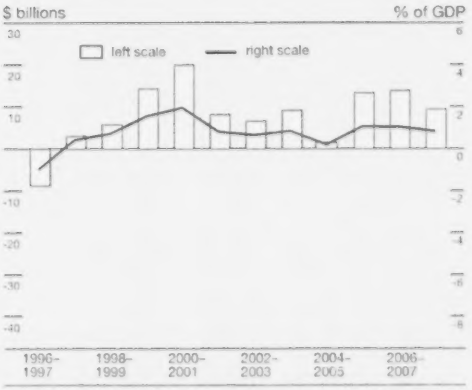
April to October 2008

Through the first seven months of the 2008–09 fiscal year, there was a budgetary surplus of $0.2 billion, down $5.9 billion from the $6.1-billion surplus reported during the same period of 2007-08.

Budgetary revenues increased by $1.2 billion, or 0.9 per cent, to $135.1 billion.

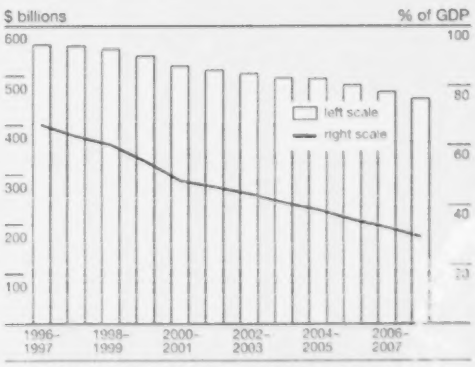
- Personal income tax revenues rose $3.7 billion, or 6.0 per cent.
- Corporate income tax revenues were down $2.6 billion, or 12.6 per cent. This decline reflects both weaker profits and the impact of the 1.5-percentage-point reduction in the general corporate income tax rate and the elimination of the corporate surtax in 2008.
- Other income tax revenues rose by $0.2 billion, or 5.4 per cent.
- Excise taxes and duties decreased by $1.8 billion, or 6.9 per cent. GST revenues were down $2.0 billion, or 11.0 per cent, reflecting the 1-percentage-point reduction in the GST rate, effective January 1, 2008. Customs import duties increased by $0.1 billion, sales and excise taxes by $28 million and revenues from the Air Travellers Security Charge by $4 million.
- EI premium revenues were down $21 million, or 0.2 per cent, as the decline in the premium rate from $1.80 to $1.73 per $100 of insurable earnings, effective January 1, 2008, was largely offset by gains in employment and wages and salaries.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

- Other revenues rose by $1.8 billion, or 14.1 per cent. Roughly half of the net increase was due to strong growth in receipts under the Atlantic Offshore Revenue Accounts, resulting from growth in offshore production and oil prices. This revenue is transferred to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords, such that there is no net impact on the budgetary balance.

Program expenses for April to October 2008 were $115.9 billion, up $7.8 billion, or 7.2 per cent, from the same period last year, reflecting higher transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments for April to October 2008 were up $5.6 billion, or 8.0 per cent, from the same period last year.

- Major transfers to persons were up $1.0 billion, or 3.1 per cent. Elderly benefits increased by 3.7 per cent and EI benefits by 4.2 per cent. Children's benefits remained stable compared to the same period last year.
- Major transfers to other levels of government were up $1.9 billion, or 7.6 per cent, reflecting legislated growth in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were up $2.7 billion, or 22.3 per cent, mainly reflecting increases in payments related to infrastructure and higher transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords.

Other program expenses increased by $2.2 billion, or 5.7 per cent, from last year's level.

Public debt charges decreased by $0.6 billion, or 3.1 per cent, reflecting lower interest rates.

Financial requirement of $33.8 billion for April to October 2008

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

With a budgetary surplus of $0.2 billion and a requirement of $34.0 billion from non-budgetary transactions, there was a financial requirement of $33.8 billion in the April to October 2008 period, compared to a financial source of $15.6 billion in the same period last year. This difference reflects the Budget 2007 announcement that the Government would meet all of the borrowing needs of Canada Mortgage and Housing Corporation (CMHC), the Business Development Bank of Canada and Farm Credit Canada through direct lending in order to reduce overall borrowing costs and improve the liquidity of the government securities market. The financial requirement also reflects the initial purchases of up to $75 billion in insured mortgage pools through CMHC under the Insured Mortgage Purchase Program (IMPP) to support the availability of longer-term credit. The requirement for foreign exchange activities mainly reflects the impact of exchange rate movements on the Canadian-dollar value of foreign-denominated assets.

Net financing activities up $43.6 billion

The Government financed this financial requirement of $33.8 billion and increased its cash balances by $9.8 billion by increasing unmatured debt by $43.6 billion. The increase in debt was achieved largely through the issuance of treasury bills. Cash balances at the end of October 2008 stood at $21.0 billion, $15.1 billion above their level at the end of October 2007. The increase in cash balances mainly reflects increased balances at the Bank of Canada to support the Bank's operations to provide liquidity to financial markets and to cover some of the Government's own funding needs for the IMPP.

Table 1
Summary statement of transactions

	October		April to October	
	2007	2008	2007–08	2008–09
		($ millions)		
Budgetary transactions				
Revenues	18,080	18,755	133,866	135,106
Expenses				
Program expenses	-15,836	-16,770	-108,097	-115,865
Public debt charges	-2,760	-2,588	-19,656	-19,039
Budgetary balance (deficit/surplus)	-516	-603	6,113	202
Non-budgetary transactions	2,750	-17,292	9,494	-34,038
Financial source/requirement	2,234	-17,895	15,607	-33,836
Net change in financing activities	578	31,168	-30,850	43,632
Net change in cash balances	2,812	13,273	-15,243	9,796
Cash balance at end of period			5,963	21,041

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	October			April to October		
	2007	2008	Change	2007–08	2008–09	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,834	9,758	10.5	62,388	66,115	6.0
Corporate income tax	2,610	1,991	-23.7	20,396	17,822	-12.6
Other income tax	401	495	23.4	3,001	3,164	5.4
Total income tax	11,845	12,244	3.4	85,785	87,101	1.5
Excise taxes and duties						
Goods and services tax	2,807	2,330	-17.0	18,088	16,101	-11.0
Customs import duties	365	370	1.4	2,292	2,440	6.5
Sales and excise taxes	787	611	-22.4	5,750	5,778	0.5
Air Travellers Security Charge	31	32	3.2	229	233	1.7
Total excise taxes and duties	3,990	3,343	-16.2	26,359	24,552	-6.9
Total tax revenues	15,835	15,587	-1.6	112,144	111,653	-0.4
Employment Insurance premiums	874	874	0.0	9,288	9,267	-0.2
Other revenues	1,371	2,294	67.3	12,434	14,186	14.1
Total budgetary revenues	18,080	18,755	3.7	133,866	135,106	0.9

Note: Totals may not add due to rounding.

Table 3
Budgetary expenses

	October			April to October		
	2007	2008	Change	2007–08	2008–09	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,683	2,828	5.4	18,421	19,103	3.7
Employment Insurance benefits	1,104	1,048	-5.1	7,772	8,100	4.2
Children's benefits	987	994	0.7	6,980	7,011	0.4
Total	4,774	4,870	2.0	33,173	34,214	3.1
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,799	1,885	4.8	12,473	13,200	5.8
Canada Social Transfer	832	879	5.6	5,681	6,158	8.4
Total	2,631	2,764	5.1	18,154	19,358	6.6
Fiscal transfers	1,210	1,329	9.8	8,486	8,975	5.8
Canada's cities and communities	13	233	n/a	595	714	20.0
Alternative Payments for Standing Programs	-264	-255	-3.4	-1,785	-1,675	-6.2
Total	3,590	4,071	13.4	25,450	27,372	7.6
Subsidies and other transfers						
Agriculture and Agri-Food	119	145	21.8	708	833	17.7
Foreign Affairs and International Trade	169	253	49.7	1,335	1,587	18.9
Health	136	52	-61.8	1,154	1,175	1.8
Human Resources and Skills Development	166	139	-16.3	977	1,224	25.3
Indian Affairs and Northern Development	475	482	1.5	2,890	2,938	1.7
Industry	198	254	28.3	1,126	1,205	7.0
Other	640	1,143	78.6	3,701	5,581	50.8
Total	1,903	2,468	29.7	11,891	14,543	22.3
Total transfer payments	10,267	11,409	11.1	70,514	76,129	8.0
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	75	93	24.0	810	651	-19.6
Canada Mortgage and Housing Corporation	181	166	-8.3	1,126	1,318	17.1
Other	325	370	13.8	2,260	2,557	13.1
Total	581	629	8.3	4,196	4,526	7.9
Defence	1,995	1,637	-17.9	9,824	10,559	7.5
All other departments and agencies	2,993	3,095	3.4	23,563	24,651	4.6
Total other program expenses	5,569	5,361	-3.7	37,583	39,736	5.7
Total program expenses	15,836	16,770	5.9	108,097	115,865	7.2
Public debt charges	2,760	2,588	-6.2	19,656	19,039	-3.1
Total budgetary expenses	18,596	19,358	4.1	127,753	134,904	5.6

Note: Totals may not add due to rounding

Table 4

The budgetary balance and financial source/requirement

	October		April to October	
	2007	2008	2007–08	2008–09
		($ millions)		
Budgetary balance (deficit/surplus)	-516	-603	6,113	202
Non-budgetary transactions				
Capital investing activities	252	-351	-1,247	-2,007
Other investing activities	-253	-12,674	-1,053	-26,667
Pension and other accounts	1,123	615	5,142	3,080
Other activities				
Accounts payable, receivables, accruals and allowances	-431	-1,240	-1,519	-4,546
Foreign exchange activities	2,274	-3,886	6,749	-5,823
Amortization of tangible capital assets	-215	244	1,422	1,925
Total other activities	1,628	-4,882	6,652	-8,444
Total non-budgetary transactions	2,750	-17,292	9,494	-34,038
Financial source/requirement	2,234	-17,895	15,607	-33,836

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	October		April to October	
	2007	2008	2007–08	2008–09
		($ millions)		
Financial source/requirement	2,234	-17,895	15,607	-33,836
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	29	7,589	-3,388	5,446
Treasury bills	1,600	19,400	-21,600	35,700
Canada Savings Bonds	-56	-32	-453	-147
Other	-5	-24	-556	-516
Total	1,568	26,933	-25,997	40,483
Foreign currency borrowings	-855	1,543	-1,586	520
Total	713	28,476	-27,583	41,003
Cross-currency swap revaluation	-1,224	2,801	-4,360	2,447
Unamortized discounts on debt issues	-93	-100	3	274
Obligations related to capital leases	1,182	-9	1,090	-92
Net change in financing activities	578	31,168	-30,850	43,632
Change in cash balance	2,812	13,273	-15,243	9,796

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2008	October 31, 2008	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	110,463	100,792	-9,671
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	253,550	258,996	5,446
Treasury bills	116,936	152,636	35,700
Canada Savings Bonds	13,068	12,921	-147
Other	1,042	526	-516
Subtotal	384,596	425,079	40,483
Payable in foreign currencies	9,498	10,018	520
Cross-currency swap revaluation account	-1,420	1,027	2,447
Unamortized discounts and premiums on market debt	-6,213	-5,939	274
Obligations related to capital leases	4,236	4,144	-92
Total unmatured debt	390,697	434,329	43,632
Pension and other accounts			
Public sector pensions	137,371	138,931	1,560
Other employee and veteran future benefits	47,901	49,374	1,473
Other pension and other accounts	5,895	5,942	47
Total pension and other accounts	191,167	194,247	3,080
Total interest-bearing debt	581,864	628,576	46,712
Total liabilities	692,327	729,368	37,041
Financial assets			
Cash and accounts receivable	82,878	87,550	4,672
Foreign exchange accounts	42,299	48,122	5,823
Loans, investments and advances (net of allowances)	50,869	77,536	26,667
Total financial assets	176,046	213,208	37,162
Net debt	516,281	516,160	-121
Non-financial assets	58,644	58,726	82
Federal debt (accumulated deficit)	457,637	457,434	-203

Note: Totals may not add due to rounding.

For inquiries about this publication, contact Chris Forbes at 613-995-6391.
Ce document est également offert en français.
December 2008